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C O N F I D E N T I A L SECTION 01 OF 02 SAO PAULO 000104

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SUBJECT: EMBRAER'S CURADO -- ADVICE ON FX2 AND VIEWS ON THE  
FINANCIAL CRISIS

REF: A. BRASILIA 73

[1](#)B. SAOPAULO 31

Classified By: Consul General Thomas White; Reasons 1.4 (b) and (d).

[1](#)1. (C) SUMMARY: Ambassador Sobel met with Embraer CEO Federico Curado on January 30 to discuss Curado's views on the FX2 sale, as well hear about how the financial crisis has affected the company's sales. Curado stressed the political nature of the decision, stating that in addition to technology transfer, one of the primary goals of the Request for Proposal (RFP) was job creation. He said this could be achieved through a partnership between Boeing and Embraer in the development of a next-generation Brazilian jet fighter. Curado also suggested that the United States offer to purchase a number of U.S.-assembled Embraer Super Tucanos in exchange for the FX2 contract. He thought that tying civilian aviation collaboration with the FX2 sale was too complicated and too far off. Regarding the financial crisis, he told Ambassador Sobel that Embraer has suffered tremendously, and expects Embraer's production to fall significantly after it works through its current backlog.  
END SUMMARY.

[1](#)2. (C) Curado emphasized the importance of the political dimension of this decision. He said that even if Brazil received full technology transfer, this would not achieve what he sees as one of the principal goals of the program, job creation. Curado explained that building a jet fighter is a difficult process and that the only way to truly learn how to build a plane is to develop the aircraft from the very beginning. Not even technology transfer can accomplish this, because "it is through trial and error that a company learns how to actually build an aircraft." In Curado's view, the GOB ultimately wants to create jobs from this sale and to do so, they need a partner who can work with Embraer to develop a next-generation aircraft in Brazil. Embraer would like Boeing to be that partner.

[1](#)3. (C) Embraer proposed matching the sale of the F-18s with a comparable purchase of Embraer Super Tucanos, assembled at the Embraer facility in Florida. Curado cited this as a creative way to add value to the Boeing bid. This promise would, in his view, be a convincing step in the

GOB's decision. Curado then stated that Embraer privately hopes Boeing wins the contract, though publicly they must remain neutral. He finally asked Ambassador Sobel to avoid discussions of civilian aviation collaboration, which he said could confuse the selection process for the FX2.

14. (C) According to Curado, the financial crisis has brought Embraer's new sales to zero. They are working through a backlog of planes, but in two to three years, Curado expects to have completed the backlog, leaving Embraer with no planes to produce. He told Ambassador Sobel that he expects the crisis to have abated in three to four years, though he foresees further depreciation of assets worldwide. He said that some clients have canceled contracts, despite losing deposits as high as 40 percent of the value of the plane. NOTE: This differs from Curado's public statements that do not paint such a bleak picture. In fact, Curado told a visiting Codel on January 29 that sales remain strong for certain classes of aircraft and that few of their clients have canceled orders. END NOTE.

15. (C) COMMENT: Defense officials have told the Mission that creation of a domestic arms industry is an essential part of the bidding process (REF A). The head of the Brazilian Air Force has said that he prefers the F-18, and most experts believe it to be technologically superior (REF B). Curado concurred that both technology transfer and job creation are key aspects of the RFP. As it stands, the RFP calls for a relatively small number of planes (36), and Boeing officials have told Embraer that it is not economical

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to assemble or manufacture F-18s in Brazil. This fact would not allow for the creation of significant numbers of jobs in Brazil, something that Curado and Embraer see as key to winning the contract. However, if Boeing and Embraer were to partner in the development of a Brazilian next-generation jet fighter, the technology transfer and job creation concerns would be addressed, and potentially make Boeing's bid for the FX2 more likely to succeed. END COMMENT.

16. This cable was coordinated / cleared by Embassy Brasilia and Ambassador Sobel.  
WHITE